



IGTA expresses concerns over Basel II impact on corporate funding

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The member associations of the International Group of Treasury Associations (IGTA) would like to make Treasurers across the world aware that Basel II formally came into effect for EU and G10 banks on Jan 1st, 2008. The accord has been in a transitional phase across Europe since Jan 1st 2007, although there is the exception of the US where the introduction is delayed until Jan 1st 2009.

The aim of Basel II is to deliver a more risk-sensitive regime which on balance is not supposed to alter regulatory capital requirements for the banking sector, even after including new operational risk capital charges. It is our concern however that there may be negative implications for borrowers and, more especially, (non-financial) corporate treasurers. Whilst the credit process between banks and corporates is not new, Basel II is intended to create a structure to this analysis for regulatory risk management.

The current suggestion that most major banks are already including Basel II charges in loan margins may well be true, but we have not found statements from banks committing to this practice on a continuing basis. This is despite banks investing heavily in credit evaluation systems and processes. Our view is that treasurers should be aware of the potential impact of Basel II and, more specifically, should keep a close watch on other costs arising from its formal introduction. Treasurers may wish to consider the following points:

- Basel II may well create situations where a bank's credit models disadvantage a borrower because of their industry sector, geographic location or sovereign risks (e.g. transfer risks) – i.e. circumstances beyond that company's control. Treasurers should press their banks in all jurisdictions to disclose the results of the Basel II credit analysis process;
- Borrowers should carefully review existing and/or proposed loan documentation in relation to the clausings referring to increases in margins and/or costs during the life of a loan;
- Treasurers will need to consider their practice of relationship banking. Banks will increasingly be asking their customers for more income generating business; IGTA's position is that, in return, treasurers are entitled to ask their bankers to explain the returns they make from their relationships;
- Treasurers will need to be careful that their business is not overly constrained by requests from their banks for collateral to address newly assessed, negative credit perceptions.

The medium term impact of Basel II is not clear. However treasurers will need to be alert to negative shifts in their funding and transaction costs that are claimed by their banks to derive from Basel II. Treasurers should not hesitate to challenge their banks to fully explain such shifts.

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NOTES TO EDITORS

The International Group of Treasury Associations (IGTA) was formed to enhance the activities of National Treasury Associations worldwide.

IGTA's objectives are to:

- *Encourage the highest standards of professional ethics and best practice among treasury professionals world-wide*
- *Raise the profile of the treasury profession*
- *Explore the development of reciprocal membership benefits*
- *Encourage the exchange of information, business practices, and details of various local regulations.*

IGTA provides contact information and website links for all the members of the Association
<http://www.igta.org/>